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BIWEEKLY REPORT

SINO-SOVIET ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS

Number 1

23 February 1956

PREPARED BY THE WORKING GROUP
ON SINO-SOVIET ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS

ECONOMIC INTELLIGENCE COMMITTEE

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FOREWORD

This report is the first of a series of biweekly reports issued in response to a request for coordinated intelligence reporting on economic activities of the Sino-Soviet Bloc in underdeveloped countries. These biweekly reports are expected to include three sections: I, a summary of the trends in events during the reporting period; II, a more detailed discussion of the major developments; and, III, highlights of other significant happenings. A more detailed review of such activities to date will be published in the near future, with subsequent quarterly supplements.

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SINO-SOVIET BLOC ACTIVITIES IN UNDERDEVELOPED AREAS

I. Summary of Developments, 1-14 February 1956.

The most significant event during the first 2 weeks of February 1956 involving Sino-Soviet Bloc activities in underdeveloped areas was a Soviet overture to Pakistan. This overture is the first attempt to weaken through economic inducements the military ties of countries aligned with the West. Also for the first time, the USSR concluded agreements for technical aid in the atomic energy field with non-Bloc countries -- Yugoslavia and Egypt.

The USSR initiated all of these new moves in the economic offensive, whereas the European Satellites and Communist China continued in their efforts to enlarge the scope of economic relations already established. Despite a long history of difficulties in Czechoslovak-Yugoslav relations, an agreement to balance their respective claims was concluded in 10 days. The agreement included a provision for a Czechoslovak loan to Yugoslavia. Poland and the USSR also granted loans to Yugoslavia, bringing the total of Bloc credit extended to that country during 1956 to more than US $280 million.

In the Moslem world, in addition to the technical aid granted to Egypt and the overtures to Pakistan (which are likely to be followed by several trade agreements with the Bloc in 1956), a Soviet mission is currently in Yemen negotiating a trade agreement which may include arms. Several Bloc countries have submitted bids for the construction of an oil refinery in Syria, and East Germany has sent engineers and technicians to Egypt and has received an Egyptian order for an industrial installation. Rumania reportedly is negotiating barter transactions with private business firms in both Egypt and Lebanon. A long article in Pravda detailed the benefits which Turkey could derive from extended trade with the USSR.

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In Southeast Asia the USSR has offered economic and technical training for personnel of the ECAFE countries and, through UNESCO, has agreed to provide India with technical help and equipment for the Bombay Technological Institute. Soviet oil specialists are in New Delhi and Calcutta to undertake a survey of oil reserves.

II. Background Notes on Items of Special Interest.

A. Overtures to Pakistan.

On 4 February 1956, Pakistan concluded a trade agreement with Poland, and on 10 February 1956, Pakistan informed the USSR that it was willing to begin negotiations for a 1-year trade pact. Informal talks between Pakistan trade delegations and Soviet embassy officials have been going on for some time, and the fact that similar informal discussions about potential trade agreements are currently under way with Czechoslovakia, Hungary, and Communist China was confirmed by the Minister of Commerce of Pakistan, S. Osman Ali.

In a press interview on 6 February, Premier Bulganin had offered extended trade and technical aid to Pakistan. He said at that time that the USSR was willing to buy Pakistan's agricultural produce and cattle and to sell in exchange Soviet agricultural and industrial machinery. In reply to a direct question, he indicated also that the USSR was willing to share with Pakistan its technical knowledge of peaceful uses of atomic energy. When asked how Soviet-Pakistan relations could be improved, the Premier replied that "The Soviet Union could not be indifferent to the fact that certain neighboring states are joining pacts aimed at the Soviet Union." He suggested that if Pakistan wants to improve its relations with the USSR, in view of its membership in both the Baghdad Pact and the Southeast Asia Treaty Organization (SEATO), it should seek a treaty with the USSR based on principles of noninterference, which are the basis for the Soviet friendship pact with India.

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1. Background of Trade Relations between Pakistan and the Bloc.

The pattern of Pakistan's exports to the Sino-Soviet Bloc -- especially to Communist China, its most important Bloc trading partner -- has been even more volatile than the pattern of Pakistan's total exports, which have fluctuated widely with the prices of jute and cotton. The share of Pakistan's total exports going to the Bloc grew from 6 to 23 percent between 1950 and 1952, declined to 5 percent in 1953, and has fluctuated rather violently since, as shown in the table.

Trade of Pakistan with the Sino-Soviet Bloc
as a Percent of Total Pakistan Trade a/
1950-55

Million US $

	Exports		Imports	
Year	Total	Percent to Bloc	Total	Percent from Bloc
1950	495	6	402	6
1951	749	10	523	4
1952	533	23	610	1
1953	435	5	350	1
1954	359	9	325	2
1955 (January-June)	205	5	148	Negligible

a. U.S. Department of Commerce.

In large part, these fluctuations reflect gyrations in Chinese Communist purchases of Pakistan cotton. In 1952, for example, 29 percent of Pakistan's exports of raw cotton went to Communist China, but in the next year Communist China took less than 4 percent of a much smaller total volume. In 1954, however, Chinese Communist purchases more than tripled and accounted for 24 percent of total Pakistan cotton exports.

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Bloc purchases of jute from Pakistan have been comparatively more stable, increasing steadily in dollar terms from US $5 million in 1952 to US $8 million in 1954 and US $7 million during the first half of 1955. As a proportion of total jute exports, sales to the Bloc grew from 3 percent to 7 percent between 1952 and the first 6 months of 1955.

Pakistan's imports from the Bloc in recent years have been negligible in amount and composed largely of grain, textiles, and other manufactures. In fact, Pakistan has carried a sizable export surplus with the Bloc, primarily with Communist China, which is normally being settled in sterling.

2. Previous Trade Agreements.

The last reported intergovernmental trade agreement between Pakistan and the USSR was a barter deal signed 16 September 1952, in which 150,000 tons of Soviet wheat were to be exchanged for 22,000 tons of jute and 13,150 tons of cotton. The shipments of each country were valued at 5.9 million pounds sterling. Since that time, such commodity trade as has taken place between the two countries has been without intergovernmental agreements.

Among the European Satellites, only Czechoslovakia, Hungary, and Poland have had trade agreements with Pakistan. All of these trade agreements expired on 30 June 1953, and no renewals have been reported. Communist China has never had a formal trade agreement with Pakistan.

Thus, for the past 2-1/2 years, trade between the Bloc and Pakistan has been a matter of individual transactions which in the aggregate resulted in a sizable but volatile Pakistan export surplus. The trade agreements which Pakistan currently is discussing with certain Bloc countries are likely to call for a more balanced trade and, therefore, an increase of Pakistan's imports from the Bloc.

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3. Market for Jute and Cotton in the West and in the Sino-Soviet Bloc.

The combined exports of jute and cotton account for 75 percent of total Pakistan export receipts -- jute for about 45 percent and cotton for about 30 percent. Moreover, Pakistan accounts for about 5 percent of Free World cotton exports and for more than 90 percent of world trade in jute fibre. The world prices of these two fibres are highly unstable and react sharply to changes in industrial demand. The average 1951 price of jute in Pakistan, for example, was US $318 per short ton. By 1953 the price had declined to US $159, but it recovered to US $187 during the first half of 1955. Similarly, the price of cotton reached a postwar high of US $64 per 100 pounds in Pakistan in 1951, declined to an average of US $31 in 1953, rose slightly in 1954, and has since declined.

The outlook is for further declines in prices of these fibres during 1956. The effect on Pakistan's export receipts, and therefore on her ability to import, makes the Bloc offer of trade agreements attractive.

a. Jute.

The USSR itself raises small quantities of jute, probably at higher real costs than does Pakistan. The USSR traditionally has imported about 20,000 metric tons of jute annually. In the USSR and the European Satellites, however, the Bloc has the world's largest producers of hemp and flax, accounting for over 80 percent of the world production. These fibres are excellent substitutes for jute. Hemp produced in the Bloc is a soft fibre, in contrast to the hard Manila hemp, and consequently can be processed on the same type of machinery as is jute. Within the Bloc, hemp, like jute, is used primarily for packing and bagging. Bloc production of flax and hemp declined between 1950 and 1953, and although the flax crop is reported to have made a comeback in 1955, it is doubtful that production reached the previous level. In 1955 the USSR, for the first time in about 30 years, exported a small amount of flax to the West.

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Before World War II, Czechoslovakia imported sizable amounts of jute, processed it, and sold it on the world market, primarily to the US. Poland and Rumania also are now jute importers, but on a much smaller scale.

Thus at little economic cost the Bloc could step up its purchases of jute. In view of Pakistan's difficulties, the Bloc might gain some political advantage by even a moderate expansion of its purchases of Pakistan jute.

b. Cotton.

The Sino-Soviet Bloc produces about one-quarter of total world production of cotton. The USSR accounts for the bulk of Bloc production, and China provides most of the remainder. Total Bloc production has increased steadily in the past 5 years, the 1954-55 crop being about 40 percent larger than that of 1949-50. The Bloc as a whole has reduced its imports of cotton from the Free World, and since 1953-54 the USSR has been exporting cotton to the Free World as well as to the European Satellites. The USSR almost doubled its exports to Europe last year and apparently is continuing its export promotional drive. At the same time, the European Satellites apparently are being encouraged to reduce their dependence on Soviet sources and to switch their purchases to Free World sources where they may be politically advantageous.

Thus purchases of Pakistan cotton by the European Satellites in exchange for their own manufactures might be welcome, especially because this would free more Soviet cotton for export to the Free World.

B. Soviet Atomic Energy Aid to Non-Bloc Countries.

Early in February 1956 the first agreements between the USSR and a non-Bloc country providing for technical aid in the atomic energy field were announced -- one with Yugoslavia and one with Egypt. The Soviet-Yugoslav agreement is the more comprehensive, providing not only for technical aid but also for a supply of nuclear materials.

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1. Yugoslav Agreement.

On 28 January 1956 the governments of the USSR and Yugoslavia signed an agreement in Belgrade providing for Soviet assistance to Yugoslavia in the construction of an atomic reactor with a capacity of from 6,500 to 10,000 kilowatts. Negotiations for this agreement had been under way since early autumn 1955. According to the agreement the USSR will deliver and mount a nuclear reactor in Yugoslavia and will also provide enriched uranium and heavy water.

The Yugoslavs were reported to be reluctant to accept a finished reactor from either the US or the USSR. A member of the Atomic Research Institute in Yugoslavia was quoted as saying, "We have developed our own type of reactor and we should like to get the facilities to build it on a strictly commercial basis -- the best proposition and the best prices." The Yugoslavs apparently have wanted to avoid a "package deal" -- that is, having the reactor constructed without their participation in its design and having it arrive without their prior knowledge of its type and details. They have also stated explicitly that the agreement with the USSR "envisages participation of /Yugoslav/ scientists in all phases of the construction of the reactor from blueprints to starting operations," and have indicated that they expect that their own experience and knowledge is to be applied in the project. Construction of the reactor is expected to be completed in 2 or 3 years. The agreement includes a supply of nuclear materials, probably enriched uranium of the type which the US supplies in its "Atoms for Peace" plan. Although many deposits of uranium ore have been discovered in Yugoslavia in recent years, the quality of the Yugoslav ore probably is poor. Moreover, much time is required to develop and process the ore for use.

The reactor evidently will be an experimental one and therefore not of sufficient capacity to produce amounts large enough for extensive productive or war uses (that is, probably not enough to produce a bomb). Thus the Yugoslav reactor, when installed, will be an important step forward in Yugoslavia's own development of nuclear physics and will bring closer the time when Yugoslavia will have nuclear power in usable amounts.

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2. Egyptian Agreement.

On 10 February 1956 the Soviet News Agency, TASS, announced that the USSR will train Egyptian scientists and aid in setting up a nuclear physics laboratory in Cairo. Soviet specialists will be sent to advise on planning and construction, and Egyptian specialists will go to Moscow to study. Soviet propaganda moved swiftly to exploit the agreement, holding out hopes of great benefits to be derived by other Middle Eastern nations from cooperation with the USSR in atomic matters.

The laboratory will enable the Egyptians to do basic research in nuclear physics. The USSR probably will supply isotopes, but as no reactor is included in the deal, there will be no need for the USSR to provide enriched uranium. The research conducted in such a laboratory may have some short-run value in improving techniques in the fields of medicine, agriculture, and biology as well as in applications to industry. In the long run, however, the primary value of the laboratory to the Egyptians would lie in training a group of competent and experienced nuclear physicists. Today there are very few Egyptians with even the most basic knowledge of nuclear physics.

In the spring of 1955 the Egyptian government formed an Atomic Energy Commission -- a 7-man commission composed of government, defense, and university people -- to plan an atomic energy program for Egypt. The 1955-56 budget of Egypt allows 15,000 Egyptian pounds for research on radioactive material.

In 1955 the Egyptians received a radioisotope laboratory from the US, and several Egyptian scientists have come to the Reactor Training School in Chicago, Illinois, for training in this field. The Soviet laboratory probably will be similar to the US laboratory.

Monazite (the commercial source of thorium) is known to exist in the sands of the Nile Delta, but probably not in economic quantities. No occurrences of uranium or beryllium are known in the area.

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C. Sino-Soviet Bloc Credits to Yugoslavia.

On 10 February 1956 an agreement was signed in Prague in which Czechoslovak compensation claims for Czechoslovak property nationalized by Yugoslavia, and for other debts contracted before the break with the Cominform, would be considered offset by Yugoslav claims for compensation for damages arising from the economic sanctions imposed by Czechoslovakia.

Czechoslovakia also agreed to extend credits amounting to US $75 million to Yugoslavia -- US $25 million for the purchase of miscellaneous equipment over a 3-year period, and US $50 million for the purchase of complete plants and plant installations within a period of 5 years. Repayment terms are 10 years at 2 percent, beginning after the credits have been used.

The speed with which agreement on compensation claims was reached -- after only 10 days of negotiations -- indicates a Bloc willingness to let bygones be bygones. The Czechoslovak credit agreement follows similar credit agreements with the USSR and Poland concluded earlier this month. Altogether the Bloc in 1956 has extended more than US $280 million in credit to Yugoslavia.

By comparison, as of 30 June 1955 the US had lent Yugoslavia a total of US $55 million, but in addition had given US $284.7 million in grants for economic and technical assistance. Another US $41.2 million was granted for relief. These sums do not include US UNRRA grants, which totaled US $298.1 million.

The Soviet agreement called for the extension of credits totaling, in terms of dollars, US $204 million to Yugoslavia -- US $30 million in gold or freely convertible currency, US $54 million to finance imports of raw materials from the USSR over a 3-year period, and US $120 million to finance the import of capital equipment and technical services from the USSR. The technical services are to include the construction by the USSR of a nitrate mineral fertilizer plant, a superphosphate plant, a 100,000-kilowatt thermoelectric power station, and the expansion

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and reconstruction of three mines. Repayment terms are the same as those on the Czechoslovak loans. (The Soviet agreement formalized a protocol, which was reached late last August but was delayed by a Yugoslav agreement with the International Bank for Reconstruction and Development, in which no new international indebtedness would be undertaken until after 1955.) In addition, the USSR recently agreed to a program of technical aid in atomic energy matters. The program, a commercial one, is to be paid for by Yugoslavia.

The Polish agreement called for credits of an unspecified value to finance the import of railroad rolling stock and of equipment for the food and mining industries.

The Sino-Soviet Bloc overtures are resulting in a rapid renewal of economic relations between Yugoslavia and the countries of the Bloc. These countries had accounted for nearly one-half of Yugoslavia's foreign trade in the 1946-48 period, but after the rupture of diplomatic and commercial relations in 1948, Bloc trade declined to a negligible amount. Over the first 9 months of 1955, Bloc countries accounted for almost 8 percent of Yugoslavia's trade. If trade agreements recently signed with the USSR and other Bloc countries are implemented fully, their share in Yugoslav trade may increase to 25 percent in 1956.

D. Soviet Arms Reportedly Offered to Yemen.

A Soviet economic mission, now in Yemen to negotiate a trade agreement, is reported to have offered arms for sale. Before the departure of the mission from Cairo on 29 January 1956, preliminary talks were held with the Yemen Charge d'Affaires in Cairo, after which it was reported that the USSR had offered to erect "factories" in Yemen and to supply agricultural machinery in exchange for Yemen coffee and other commodities. A spokesman for the Yemen Embassy in Cairo at that time was reported to have said that the mission did not discuss the sale of arms to Yemen, "because Yemen does not need arms."

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On 16 November 1955, on the other hand, the Yemen Ambassador to Egypt reportedly stated that Yemen was prepared to accept arms from the USSR should they be offered, particularly in view of the low prices set by the USSR, and was also prepared to accept the aid of Soviet technicians.

On 31 October 1955, Yemen and the USSR signed a treaty of friendship which stated the intent of both parties to promote mutual trade. The treaty also provided for a special agreement, to be concluded later, which would facilitate commercial exchanges between the two countries and establish diplomatic relations between them.

III. Other Significant Developments.

A. Technical Aid.

1. Offers.

The Soviet delegate to the ECAFE meetings in Bangalore, India, has repeatedly expressed his country's willingness to provide technical assistance to underdeveloped countries and has complained that, to date, the United Nations Technical Assistance Administration (UNTAA) had utilized the Soviet contributions almost completely for equipment rather than for technical services.

In an address on 24 January the Soviet representative, Mr. G.P. Velikiy, declared that the USSR was ready to accept trainees, either through the UNTAA or through bilateral agreements, and supported the proposed establishment of a regional center for geologists and mining engineers. He also suggested that the ECAFE set up a translation bureau to translate Russian technical literature into English.

On 7 February it was reported that Mr. Velikiy had registered the complaint that the UN agencies had not sent a single grant student to the USSR and that only a very limited use had been made of the services of Soviet specialists.

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2. Acceptances.

The Bombay Technological Institute, which is to receive Soviet assistance through the UN, is expected to be commissioned in June 1957. It is expected that 1,000 students per year will be trained at the institute.

Through UNESCO the USSR has agreed to provide 15 professors for 5 years, 3 translators to provide English versions of Russian textbooks and scientific journals, training facilities within the USSR for 20 institute teachers, and about US $1.5 million worth of laboratory equipment.

A delegation of 15 Polish engineers arrived in Amman on 6 February. They are employed by CEKOP, the Polish firm which reportedly has been given the contract for drafting plans for the reconstruction of the Hejaz railroad. The delegation was to begin work in Mecca on 7 February. It is doubtful, however, that the contract has officially been let to CEKOP. Because the railway cuts across Syria, Jordan, and Saudi Arabia, the approval of all three governments is necessary. King Saud is not known to have changed his decision to deny the awarding of the contract to a Sino-Soviet Bloc country. It is believed that Syria may be attempting to present the King with a fait accompli by publicizing the work begun by the Polish engineers.

B. Industrial Installations.

1. Offers.

Syria has received three bids from countries of the Sino-Soviet Bloc (the USSR, Czechoslovakia, and Rumania) for the construction of its planned 750,000-ton oil refinery. The US, France, and the UK also have submitted bids to the government of Syria.

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2. Orders.

No new orders were reported during the period.

C. Trade Agreements.

1. Proposed.

On 7 February, Pravda suggested at some length that an extension of trade between the USSR and Turkey would be of mutual benefit and further indicated that the USSR would be willing to consider a renewal of Soviet aid to Turkey.

The Pravda article represents a continuation of the chain of Soviet overtures to Turkey. In December 1955, in a speech before the Supreme Soviet, Communist Party secretary Khrushchev acknowledged his country's responsibility for the deterioration of Soviet relations with Turkey. During recent months, Soviet offers to barter machinery, cement, and petroleum for Turkish tobacco, cotton, and fruit have been repeated.

A delegation of Spanish trading firms, including Krabadin S.A., is reported to have visited East Berlin for trade negotiations. The East Germans have expressed eagerness to stimulate direct trade with all countries, including Spain. The Spanish Government has given permission for Spanish firms to conduct direct trade with Poland, East Germany, Czechoslovakia, and Hungary.

A Hungarian trade delegation is expected to arrive in Cairo on 6 February for a discussion with the Egyptians about the concluding of a long-term trade and payments agreement.

2. Signed.

On 7 February, Burma concluded a 3-year trade agreement with Rumania, including a 1-year barter arrangement under which Rumania will take 20,000 tons of rice in exchange for machinery and consumer goods.

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D. Contracts with Private Companies.

On 30 November 1955 the Rumanian news agency announced that the Ministry of Foreign Trade had concluded an agreement with the firm of Victor Curiel and Company in Alexandria. The agreement provides for the exchange of Rumanian cement for Egyptian cotton for a total value of US $2.5 million.

A Rumanian trade mission is reported to be in Lebanon negotiating with the owners of the spinning factory in Al-Hadath and is offering to purchase the entire production of the plant as well as to supply it with all the necessary raw cotton.

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